

SAUDI KAYAN PETROCHEMICAL COMPANY
(SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)

INTERIM FINANCIAL STATEMENTS AND
AUDITORS' REPORT (LIMITED REVIEW)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007)
TO DECEMBER 31, 2008

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)**

**INTERIM FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008**

| INDEX | PAGE |
|---|-------------|
| Auditors' report (limited review) | 1 |
| Interim balance sheet | 2 |
| Interim statement of pre-operating activities | 3 |
| Interim statement of stockholders' equity | 4 |
| Interim statement of cash flows | 5 |
| Notes to the interim financial statements | 6 – 9 |

AUDITORS' REPORT (LIMITED REVIEW) ON INTERIM FINANCIAL STATEMENTS

To the stockholders
Saudi Kayan Petrochemical Company (Saudi Kayan)
Al-Jubail, Saudi Arabia

Scope of Review

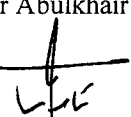
We have reviewed the interim balance sheet of Saudi Kayan Petrochemical Company (Saudi Kayan) ("Saudi Joint Stock Company"- in development stage) as of December 31, 2008 and the related interim statements of pre-operating activities for the three months then ended and the period from inception (June 12, 2007) to December 31, 2008 and interim stockholders' equity and cash flows for the period from inception (June 12, 2007) to December 31, 2008, and notes 1 to 9 which form an integral part of these interim financial statements as prepared by the Company and presented to us with all the necessary information and explanations. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standard of auditing applicable to interim financial reporting issued by the Saudi Organization for Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review Results

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with generally accepted accounting standards.

Deloitte & Touche
Bakr Abulkhair & Co.


Nasser M. Al-Sagga
License No. 322
14 Muharram, 1430
January 11, 2009



SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)

INTERIM BALANCE SHEET
AS OF DECEMBER 31, 2008

| | Note | SR 000 |
|---|------|-------------------|
| | | (Un-audited) |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 3 | 3,522,304 |
| Other receivables and prepayments | | <u>87,810</u> |
| Total current assets | | <u>3,610,114</u> |
| Non-current assets | | |
| Cost of projects under construction | 4 | 18,764,456 |
| Other non-current assets | | <u>27,152</u> |
| Total non-current assets | | <u>18,791,608</u> |
| TOTAL ASSETS | | <u>22,401,722</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | | 540,383 |
| Accrued and other current liabilities | | <u>500,257</u> |
| Total current liabilities | | <u>1,040,640</u> |
| Non-current liabilities | | |
| Long term debts | | 5,814,824 |
| Other non-current liabilities | | <u>52,177</u> |
| Total non-current liabilities | | <u>5,867,001</u> |
| Stockholders' equity | | |
| Share capital | 1 | 15,000,000 |
| Statutory reserve | 5 | 49,408 |
| Retained earnings | | <u>444,673</u> |
| Total stockholders' equity | | <u>15,494,081</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | | <u>22,401,722</u> |

The accompanying notes form an integral part of these interim financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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INTERIM STATEMENT OF PRE-OPERATING ACTIVITIES
FOR THREE MONTHS AND THE PERIOD FROM INCEPTION
(JUNE 12, 2007) TO DECEMBER 31, 2008

| | From October 1, 2008 to December 31, 2008 SR 000 | From inception (June 12, 2007) to December 31, 2008 SR 000 |
|---|---|---|
| | (Un-audited) | (Note 1) (Un-audited) |
| Islamic murabaha income | 2,271 | 676,847 |
| Interest income | 335 | 2,368 |
| Pre-operative and flotation costs | - | (147,172) |
| Other expenses, net | (19,071) | (24,802) |
| Net (loss) income from pre-operating activities before zakat | (16,465) | 507,241 |
| Zakat | 8,099 | (13,160) |
| NET (LOSS) INCOME FOR THE PERIOD FROM PRE-OPERATING ACTIVITIES | (8,366) | 494,081 |
| (Loss) earnings per share for the period (in SR) | (0.01) | 0.33 |

The accompanying notes form an integral part of these interim financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)

INTERIM STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

| | Share capital SR 000 | Statutory reserve SR 000 | Retained earnings SR 000 | Total SR 000 |
|--|----------------------------|--------------------------------|--------------------------------|-------------------|
| Share capital introduced | 15,000,000 | - | - | 15,000,000 |
| Net income for the period from pre-operating activities | - | - | 494,081 | 494,081 |
| Transfer to statutory reserve | - | 49,408 | (49,408) | - |
| December 31, 2008 | 15,000,000 | 49,408 | 444,673 | 15,494,081 |

The accompanying notes form an integral part of these interim financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)

INTERIM STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

| | SR 000 |
|---|---------------------|
| | (Un-audited) |
| PRE-OPERATING ACTIVITIES | |
| Net income from pre-operating activities before zakat | 507,241 |
| Changes in: | |
| Other receivables and prepayments | (87,810) |
| Accounts payable, accrued and other current liabilities | 1,027,480 |
| Other non-current liabilities | 52,177 |
| Net cash from pre-operating activities | 1,499,088 |
| INVESTING ACTIVITIES | |
| Additions to cost of projects under construction | (18,764,456) |
| Other non-current assets | (27,152) |
| Net cash used in investing activities | (18,791,608) |
| FINANCING ACTIVITIES | |
| Proceeds from issuance of share capital | 15,000,000 |
| Proceeds from long term debts | 5,814,824 |
| Net cash from financing activities | 20,814,824 |
| Net change in cash and cash equivalents | 3,522,304 |
| Cash and cash equivalents, June 12, 2007 | - |
| CASH AND CASH EQUIVALENTS, DECEMBER 31, 2008 | 3,522,304 |

The accompanying notes form an integral part of these interim financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

1. ORGANIZATION AND ACTIVITIES

Saudi Kayan Petrochemical Company (Saudi Kayan) (“the Company”) is a Saudi Joint Stock Company, in the development stage, registered under commercial registration number 2055008450 dated 26 Jumada I, 1428 (June 12, 2007). The authorized, issued and fully paid share capital of the Company, amounting to SR 15,000 million, is divided into 1,500 million shares of SR 10 each.

As per the Article of Association of the Company, the first financial year of the Company shall cover the period from the inception of the Company until the 31st December of the following Gregorian year. As no financial statements for the comparative period are available, these financial statements are not included the comparative figures for the prior year.

The principal activity of the Company is to invest in industrial projects in the petrochemical and chemical fields and owning and constructing the industrial projects to support the Company’s activities including raw materials and other within and outside the Kingdom, operating and managing the industrial projects build by the Company and to provide the support and maintenance of the utilities related to these plants and gaining the technical expertise in petrochemical and chemical fields through co-operation and purchasing from others.

The Company’s principal place of business is at Jubail Industrial City, Kingdom of Saudi Arabia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

Accounting convention

The financial statements are prepared under the historical cost convention.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Revenue recognition

Income from murabaha placements and deposits are recognized on accrual basis.

Pre-operating expenses

Pre-operating expenses include expenses not directly attributable to the construction costs of the Company and which do not have future benefits.

Cost of projects under construction

Cost of projects under construction represents the costs incurred for the construction of various projects and are accounted for at cost.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

Foreign currency translation

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the balance sheet date. Exchange gains or losses are credited or charged to statement of pre-operating activities.

Borrowing costs

Borrowing costs directly attributable to the projects under construction are added to the cost of that asset until such time as the assets are ready for its intended use. Investment income earned on temporary investment of specific borrowings pending their expenditure on the projects under construction is deducted from the borrowing costs eligible for capitalization.

End-of-service indemnities

End-of-service indemnities, required by the Saudi Arabian labor law, are provided in the financial statements based on the employees' length of service.

Employees' home ownership program

The Company has a home ownership program that offers eligible Saudi employees home ownership opportunities.

Unsold housing units constructed for eventual sale to eligible employees are included under buildings and depreciated over 33 years.

When the houses are allocated to the employees, the cost of houses constructed and sold to the employees under the program is transferred from property and equipment to other non-current assets. Down payments and installments of purchase price received from employees are set off against the other non-current assets.

The cost of the houses and the related purchase price is removed from other non-current assets when the title to the houses is transferred to the employees, at which time, no significant gain or loss is expected to result to the Company.

Employees' Savings Plan

The Company maintains an employee saving plan. The contributions from the participants are deposited in a bank account and provision is established for the Company's contribution.

Zakat

The Company is subject to zakat in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT"). Zakat is calculated and accrued for the quarter based on estimation. Zakat is recorded at the period end based on period end figures and any difference between the estimate and the actual is adjusted at that time. Any difference between the estimate and final assessment is recorded when settled.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances and Islamic murabaha investments with original maturities of three months or less.

| | |
|------------------------------|------------------|
| | <u>SR 000</u> |
| Cash and bank balances | 2,972,304 |
| Islamic murabaha investments | <u>550,000</u> |
| | <u>3,522,304</u> |

4. COST OF PROJECTS UNDER CONSTRUCTION

Cost of projects under construction represents the costs incurred by the Company for the construction of industrial projects in the petrochemical and chemical fields and to produce propylene, ethylene, benzene, cumene, phenol, acetone, polyethylene, polypropylene, ethylene glycol, bisphenol, ethanolamines, methylamines, dimethyl formamide, choline chloride, polycarbonate and ethoxylates and other petrochemical products and related facilities at Jubail Industrial City, Kingdom of Saudi Arabia. Construction related costs at December 31, 2008 comprise construction costs under various agreements and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the management. Directly attributable costs include employee benefits, site preparation and installation costs, licensing fees, professional fees and project management fees. The total costs and expenses of projects under construction up to December 31, 2008 amounting to SR 18,949.6 million. The Company during the period, in consistency with the accounting standards, charged SR 185.1 million to the pre-operating expenses.

Finance cost capitalized during the period amounted to SR 15.8 million.

The Company has leased land for plant and equipment and buildings from the Royal Commission for Jubail and Yanbu at nominal rent. The lease is for a period of 30 years commencing from 21 Rabi'1, 1428H (corresponding to April 9, 2007) and is renewable for a similar period under mutual agreed terms and conditions.

5. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is non cash item and not available for dividend distribution.

6. EARNINGS PER SHARE

Earnings per share are computed by dividing net income for the period by the weighted average number of shares outstanding amounting to 1,500 million shares.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

7. CONTINGENCIES AND COMMITMENTS

| | |
|----------------------|---------------|
| | <u>SR 000</u> |
| Letters of guarantee | <u>3,494</u> |
| Letters of credit | <u>38,271</u> |

At December 31, 2008, the Company had outstanding capital commitments of SR 18,523 million in respect of cost of projects under construction.

8. FINANCING ARRANGEMENTS

The Company obtained loans arrangements for financing of SR 22.5 billion to be paid over a period not exceeding 15 years to cover projects construction costs. This amount has been arranged by local, government and international financial institutions. The Company has utilized an amount of SR 5,814.8 million at December 31, 2008 while the remaining facilities are expected to be utilized in the coming years.

9. RESULTS OF INTERIM PERIOD

The results of the interim period are not an indication of the results for the year.